

MEMORANDUM

DATE: Friday, May 22, 2015

TO: Richard Ellis, State Treasurer
David Damschen, Deputy State Treasurer

FROM: Brian F. Baker
Zions Bank Public Finance

RE: Mountainville Academy Charter School

The purpose of this report is to document Mountainville Academy Charter School's ("Mountainville," "MCS," or the "School") adherence to the eligibility standards created for participation in the Utah Charter School Credit Enhancement Program (the "Program"). The analysis contained herein is based on Mountainville's full application to the State Charter School Finance Authority (the "Authority"), subsequent conversations with the School's finance team, as well as additional information and documents submitted in response to follow up requests by the Authority.

The School has provided all information requested subsequent to the submission of the initial application. All questions have been answered to my satisfaction. This report will examine each category of the Program's "Standards for Participation," including Basic Eligibility, Enrollment/Student Demand, Academic Performance, Management, Financial Performance, and Bond Documents. In each of these categories, the School met the basic eligibility requirements for participation in the Program, as detailed below. This report should be examined in direct conjunction with the Letter of Certification for Mountainville Academy from the State Charter School Board ("SCSB Letter"), which provides detailed analysis and historical information on Enrollment/Student Demand, and Academic Performance.

Mountainville Academy—Introduction

Mountainville Academy is a K-9 charter school located in Alpine, Utah. The School opened with only grades K-8 but expanded in 2012 to add 9th grade as well. MCS's enrollment cap was increased twice: from 675 to 750 in 2012, when 9th grade was added; and for the 2015-2016 school year, from 750 to 800. With strong retention and a large waiting list, the School

should not have a problem increasing to and maintaining this expanded enrollment into the future.

Mountainville's focus and mission has remained constant from its original charter application. The School's mission statement reads:

In partnership with parents, Mountainville Academy's mission is to employ an educational environment that promotes both academic and personal excellence, appreciation of heritage and cultures, and a love of learning, to assist students in acquiring the confidence, knowledge, skills and character to facilitate life-long learning pursuits and achievements.

The School plans to issue approximately \$13 million in revenue bonds to refinance its existing 2011 A&B bonds for economic savings.

Basic Eligibility

1. Mountainville's 2015 bonds will be issued through the Authority.
2. The SCSB Letter indicates that MCS is in good standing with the State Charter School Board.
3. The School has obtained an investment grade rating of "BBB-" from Standard & Poor's ("S&P"). Key credit concerns from the private rating report are listed below, followed by Zions' response to these concerns :
 - a. Above-average debt service carrying charge.
 - b. Variable operations during the past three years with surplus operations in the most recent fiscal year preceded by two years of deficits associated with grade expansion.
 - c. Possibility of charter revocation—this is a non-issue.

S&P also cites the following as positive credit factors that offset the above-listed weaknesses:

- a. Strong demand, as demonstrated by enrollment at or near the charter capacity during the past three years and a strong wait list.
 - b. No construction given that the academy owns its own building.
 - c. The favorable charter school environment in Utah.
4. Mountainville is in its 9th full year of operations. Financial operating history, as demonstrated by past audited financials, cash position, and increasing unrestricted fund balance, is satisfactory.
5. The School has a defined and specific mission. Their mission statement reads:

In partnership with parents, Mountainville Academy's mission is to employ an educational environment that promotes both academic and personal excellence, appreciation of heritage

and cultures, and a love of learning, to assist students in acquiring the confidence, knowledge, skills and character to facilitate life-long learning pursuits and achievements.

6. Mountainville issued bonds that were purchased by the US Department of Agriculture in 2011. The 2015 bonds will refinance these bonds for economic savings. The School is not in default under its existing bonds.

Enrollment/Student Demand

7. The School has 771 students enrolled this year.
8. Enrollment at Mountainville has increased each year since operations began in 2007. For the past three years the school has operated at 96.3% (for 2015) and 100% (for 2014 and 2013) of its enrollment cap. As grades 8, and 9 have been added between 2008 and 2012, total enrollment has increased from 676 (2008) to 771 (2015)¹. Table 1 from the SCSB Letter includes detailed enrollment history back to the 2006-2007 school year.
9. Mountainville Academy exceeds the re-enrollment standard established by the SCSB, with the most recent total re-enrollment rate of 80.8%. Over the years the School has consistently ranged between 78% and 89% reenrollment. The enrollment figures indicate that MCS isn't having difficulty filling seats. Table 2 from the SCSB Letter details historical enrollment and re-enrollment.
10. The School exceeds the ADM rate requirement. Over the last three years, MCS's Average Daily Membership rate has been 97.4%, 98.1%, and 98.1%.
11. The School has provided wait list statistics by grade, and has provided the detailed waiting list that includes descriptive and personal information on potential students to the Deputy State Treasurer. The waiting list from the application includes 370 potential students trying for admission in the 2015-2016 academic year. The waiting list is relatively strong and includes a satisfactory amount of students for every grade level offered.

Within five miles of Mountainville, there are currently 8 elementary schools and 2 intermediate/middle schools serving the grades that overlap with Mountainville. MCS has a unique position in that it is the only local school focusing on aggressive general academics.

¹ 2015 student enrollment figures unaudited, provided by the School.

Academic Performance

12. The SCSB Letter indicates that the School meets required academic standards. Table 3 from the SCSB Letter provides a breakdown of Mountainville Academy's performance relative to other schools. Over the past three years the School has been approximately on par with the charter medians.

Management

13. The School has adopted reasonable management policies and practices that guide financial, debt, and risk management. The Board has adopted an acceptable Succession Plan as well as a Financial and Risk Management Plan, including post-issuance compliance.
14. Mountainville Academy has a nine-member board. The board members have a diverse set of backgrounds, which include accounting, finance, IT, organizational consulting, communications, and education.
15. The School has contracted with Red Apple Financial as its management company. Red Apple is paid approximately \$60,000 annually for these services, which is on the low side for comparable agreements between charter schools and other service providers.
16. Mountainville Academy's historical budgeted revenues and expenditures generally demonstrate "reasonable proficiency" in forecasting. The SCSB letter includes a breakdown of adherence to budgeted revenues and expenses over the past three years, and the School is off by no more than 3.12% in any one year on revenues or expenses, and appears to do a reliable job with such budgeting.

Financial Performance

The School meets all of the current requirements for the Financial Performance section of the application, although it should be pointed out that financial metrics look weak historically due to the high growth in enrollment the School has seen in the last three years.

17. Projections used by the School in financial forecasting appear reasonable. Mountainville seems positioned to continue and improve its healthy financial standing of the past. MCS revenues are forecasted to grow at a similar rate to expenses. The School appears to be in a healthy financial position. Anticipated growth next year from 2015 student population of 771 up to the new enrollment cap of 800 appears very manageable.

18. Debt Coverage Ratio

| Requirement | Measure | Sufficient? |
|---------------|---------|-------------|
| At least 105% | 137% | Yes |

Debt coverage ratio is calculated by dividing total revenues available for debt service by the maximum annual debt service payment anticipated for the new bonds. Revenues available for debt service is calculated by taking 2014 net income from operations of \$72,309 and adding back depreciation expense of \$366,552 and interest expense of \$742,339. This leaves net revenues available for debt service of \$1,181,200. When this number is divided by maximum annual debt service of \$860,613, the coverage is 137%.

Coverage in 2012 would fall below 100%, to 73%. However, this is due to the acquisition of the School's junior high facility and the significant one-time expenses. Prior to 2012, the School does show adequate coverage on current MADS.

| | 2014 | 2013 | 2012 |
|---------------------------------------|--------------------|--------------------|------------------|
| Net Income Available for Debt Service | <u>\$1,181,200</u> | <u>\$1,123,394</u> | <u>\$631,128</u> |
| Maximum Annual Debt Service | 860,613 | 860,613 | 860,613 |
| Debt Coverage Ratio | 137% | 131% | 73% |

19. Debt Burden Ratio

| Requirement | Measure | Sufficient? |
|---------------|---------|-------------|
| Less than 25% | 19% | Yes |

The debt burden ratio requirement is based on the level of the School's fund balance, which we calculate at 21% (cash of \$907,615 divided by total operating expenses net of depreciation of \$4,423,858). Debt burden ratio is calculated as maximum annual debt service (\$860,613) divided by unrestricted operating revenues (\$4,496,167), taken from 2014 financial statements.

| | 2014 | 2013 | 2012 |
|---------------------------------|------------------|------------------|------------------|
| Maximum Annual Debt Service | <u>\$860,613</u> | <u>\$860,613</u> | <u>\$860,613</u> |
| Unrestricted Operating Revenues | 4,496,167 | 4,443,864 | 4,277,558 |
| Debt Burden Ratio | 19.1% | 19.4% | 20.1% |

20. Operating Margin

| Requirement | Measure | Sufficient? |
|-------------|---------|-------------|
| At least 7% | 26% | Yes |

Mountainville Academy's operating margin requirement of 7% or greater is based on the calculation for days cash on hand (calculated as cash divided by operating expenses multiplied by 365) of 75 days. Operating margin of 26% is calculated by dividing net income available for debt service of \$1,181,200 (see calculation under Debt Coverage Ratio) by total revenues of \$4,496,167.

| | 2014 | 2013 | 2012 |
|---------------------------------------|--------------------|--------------------|------------------|
| Net Income Available for Debt Service | <u>\$1,181,200</u> | <u>\$1,123,394</u> | <u>\$631,128</u> |
| Revenues | 4,496,167 | 4,443,864 | 4,277,558 |
| Operating Margin | 26.3% | 25.3% | 14.8% |

The School has exceeded the operating margin requirement in each of the past three years.

21. Current Ratio

| Requirement | Measure | Sufficient? |
|---------------|---------|-------------|
| At least 150% | 274% | Yes |

The current ratio is defined as current unrestricted assets (\$917,340 for 2014) divided by current liabilities (\$334,647). The School has exceeded a 150% current ratio each of the last five years.

| Mountainville Academy | 2014 | 2013 | 2012 |
|-----------------------|-----------|---------|---------|
| Current Assets | \$917,340 | 931,212 | 666,698 |
| Current Liabilities | 334,647 | 258,609 | 232,733 |
| Current Ratio | 274% | 259% | 286% |

Bond Documents

20-23. MCS's legal bond documents have been reviewed by Chapman and Cutler in their capacity as bond counsel to the Authority, and all requirements have been incorporated. In addition, Ballard Spahr, as bond counsel to Mountainville Academy, has confirmed that each of the required legal provisions is present in the bond documents.